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The Balance of Payments and International Investment Position of Spain in 2016

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According to the balance of payments (BoP) statistics, in 2016 the Spanish economy once again became a net lender. The increase in the current account balance mainly reflected the decline in the trade deficit, driven by the decrease in the energy bill and the increase in the services balance surplus.

The Spanish economy's net debtor international investment position (IIP), in GDP terms, decreased in 2016 for the second consecutive year, since the nation's net lending and the growth of GDP counteracted the slight negative impact of valuation effects and other adjustments on this indicator.

THE BALANCE OF PAYMENTS AND INTERNATIONAL INVESTMENT POSITION OF SPAIN IN 2016

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Introduction

In 2016 the Spanish economy posted an external surplus for the fifth year running. On BoP data, the nation's net lending in the past year amounted to 2.1% of GDP, slightly higher than that in 2015 (2% of GDP).¹ The decrease in net payments of investment income and, particularly, the energy bill, offset the decline in the capital account surplus.

The net balance of the financial account with the rest of the world, excluding the Banco de España, was positive and equal to 7.5% of GDP, as a result of the positive performance of outward investment by residents (7.5% of GDP) and the slight divestment by non-residents in Spain (0.2% of GDP), which amply offset the slightly negative balance of transactions with financial derivatives (-0.2% of GDP).² Since net financial transactions, excluding the central bank, exceeded the nation's net lending, this resulted in another increase in the Banco de España's net debtor position against the rest of the world.

The economy's net lending capacity and the higher nominal GDP enabled the nation's net debtor position to decline again in the past year (by 5.6 pp of GDP, to 85.7%). In any event, Spain's indebtedness continues to be high both in historical terms and in comparison with other developed countries.

This article first revises the performance of the current and capital account balances and of their main components during 2016. Second, it describes Spain's financial transactions with the rest of the world, by institutional sector and by functional category and, finally, it analyses the financial position of the economy vis-à-vis the rest of the world.³

Current and capital account balances

On BoP data, in 2016 the Spanish economy recorded net lending of 2.1% of GDP, up 0.1 pp on the previous year. This improvement in the external balance stemmed from highly diverse domestic factors, both temporary and long-term.⁴ These factors counteracted a weaker world growth than was expected in 2016 and the increase in global uncertainty over the course of the year.

Against this backdrop, the slight increase in net lending in 2016 is explained by the higher surplus on the current account (up 0.6 pp to 2% of GDP), which offset the reduction of the positive balance of the capital account (down 0.5 pp to 0.2% of GDP).⁵ In the case of the current account, the higher surplus mainly reflects the decrease in the trade deficit (down 0.4 pp to 1.6% of GDP), owing to the fall in the energy bill (down approximately 0.7 pp of GDP to 1.8% of GDP, according to Customs data). The increase in the surplus on the

¹ On Quarterly National Accounts data, net lending by the Spanish economy amounted to 2% of GDP in 2016.

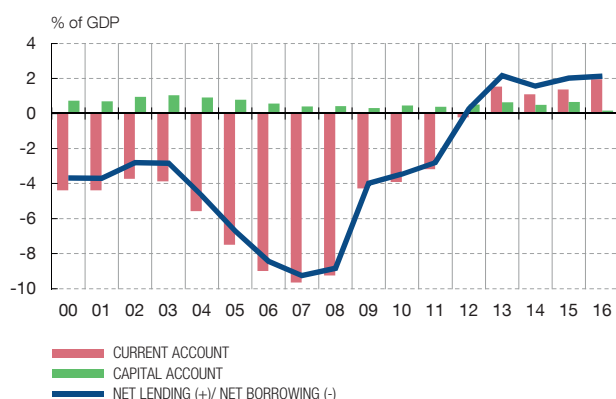
² Following international methodological recommendations and, in view of the difficulty of allocating this component appropriately, especially its transactions, to assets or liabilities, throughout this article financial derivatives figures are only shown in net terms.

³ The data of the time series of the various components of the BoP, the IIP and the external debt are available on the external sector statistics page of the Banco de España website. On this page the note entitled "Balance of payments and international investment position of Spain. Methodological note" provides a detailed explanation of the methodology and information sources used in preparing these statistics which is kept up-to-date at all times.

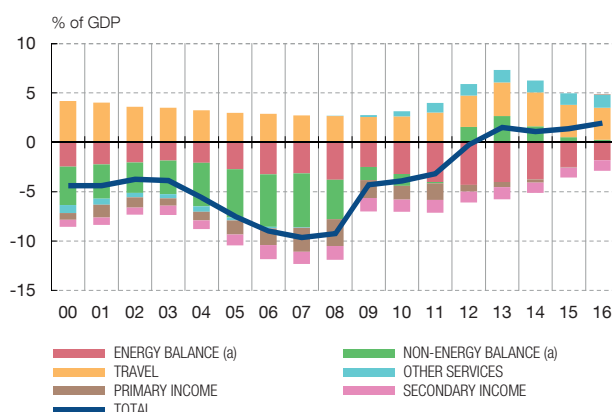
⁴ See Chapter 2 of the Banco de España *Annual Report 2015* and the "Quarterly report on the Spanish economy", *Economic Bulletin*, 1/2017, Banco de España.

⁵ The percentage of GDP discrepancy between net lending and aggregation of current and capital account balances is due to the rounding of such figures to 0.1 pp.

1 BALANCES



2 CURRENT ACCOUNT BALANCE



SOURCES: Banco de España y Departamento de Aduanas e Impuestos Especiales, de la Agencia Estatal de la Administración Tributaria.

a The energy and non-energy balances are a Balances are a Banco de España estimate based on Customs data.

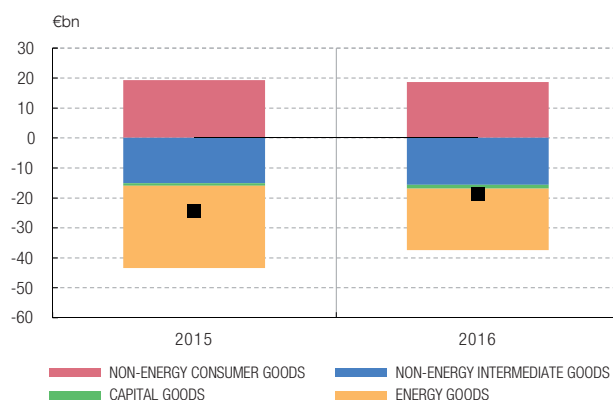
services balance and the improvement in the balance of primary income (up 0.1 pp in both cases, to 4.5% and 0.1% of GDP, respectively) (see Chart 1) also contributed positively. By contrast, the deficit on secondary income increased by 0.1 pp of GDP, to 1.1%.

As regards the trade balance, the improved terms of trade due to lower commodity prices allowed for a lower energy bill and offset the slight decrease in the non-energy surplus. Based on Customs data, the decline in the non-energy surplus (down 0.1 pp of GDP, to 0.2%) arose from the increase in capital and intermediate goods deficits and the decrease in the positive balance of consumer goods, despite the growth of net exports of food and vehicles. By geographical area, the partial correction of the trade deficit was mainly underpinned by the increase in the surplus vis-à-vis the EU and, to a lesser extent, by the decline in net non-EU imports, which were largely concentrated in oil producing countries, against the background of lower oil prices mentioned above (see Chart 2).

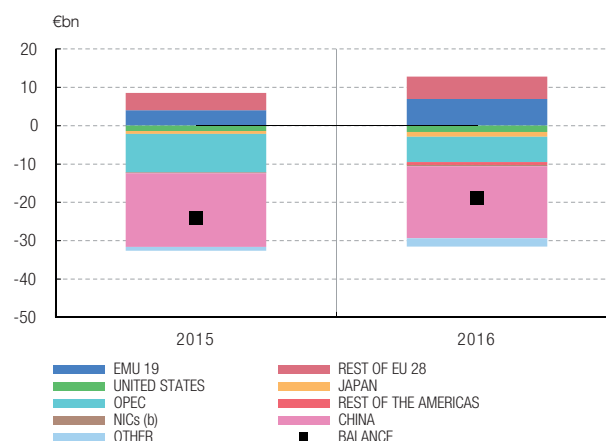
On Quarterly National Accounts information, goods exports increased in real terms by 3% in 2016 (4.4% in 2015). This slowing was more marked than that shown by the Customs data, according to which real goods exports grew by 3.5% (3.7% in 2015). The deceleration of Spanish exports was less notable than that experienced by world trade, which enabled Spain to continue increasing its share in the international markets. By type of product, real exports grew across the board, with the exception of energy products, and the growth of non-food consumer goods, including vehicles, was notable. Exports of non-energy intermediate goods recovered moderately, against a background of stabilisation of growth in emerging economies (see Chart 3). By geographical area, the behaviour of exports to the euro area was significantly more buoyant than extra-EU exports (5.2% and 1.1%, respectively). The disaggregated country-by-country information, which is available in nominal terms, highlights, within the EU, the buoyancy of exports to Italy, followed by Germany. As regards exports to extra-EU countries, the growth of sales to China was noteworthy, while exports to all other areas were predominantly weak, particularly to Latin America and oil producing countries.

Exports of goods grew against a backdrop of recovery of demand from the developed economies, especially from the euro area, increase in the number of companies exporting regularly and extension of the process of accumulating gains in competitiveness

1 BY PRODUCT GROUP



2 BY GEOGRAPHICAL AREA



SOURCE: Departamento de Aduanas e Impuestos Especiales, de la Agencia Estatal de la Administración Tributaria.

a Provisional data.

b Comprising South Korea, Taiwan, Hong-Kong and Singapore.

which has taken place in recent years thanks to the correction of relative prices and costs. Overall, gains in competitiveness, prices and unit labour costs moderated in 2016, but offset the nominal effective appreciation of the euro against the developed economies (see Chart 4).

The widening of the base of exporter firms, which increased by 1% according to ICEX data, resumed in 2016, after having dropped in the two preceding years. The base of stable exporter firms (defined as those which exported in the last four consecutive years) continued to expand in 2016, increasing by 4.2%. This increase was apparent in all geographical areas, but was sharpest in extra-EU countries.

Goods imports slowed their growth substantially in 2016 according to the Quarterly National Accounts (1.7%, compared with 5.8% in 2015). This profile is similar to that shown by Customs data, according to which the pace of growth of real purchases decreased from 6.4% in 2015 to 2.8%. The deceleration of imports was concentrated in capital and intermediate goods, whereas purchases from the rest of the world of consumer goods maintained the dynamism of the preceding year, except in the case of consumer durables, which slowed down. Imports of energy goods continued to slip in real terms. The moderation of imports could be at least partially explained by the deceleration of investment in capital goods, which is the most intensive component of purchases from the rest of the world. Additionally, there is increasing evidence that the competitive adjustment carried out by the Spanish economy in recent years would have started to activate an import replacement process, particularly of intermediate goods, by domestic production.⁶

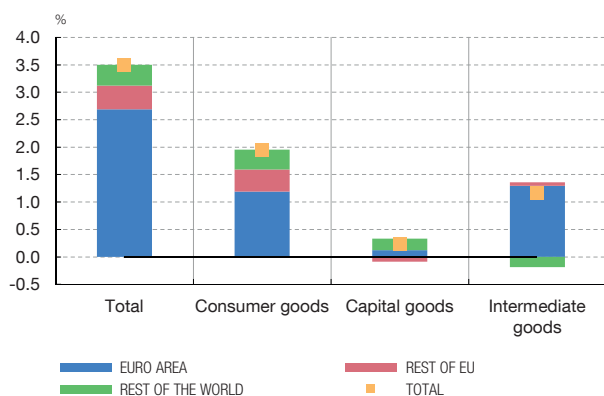
The surplus on the services balance remained practically stable in 2016 (see Chart 1), at around 4.5% of GDP, against a backdrop of growth in receipts (both travel and non-travel related) and in payments, mainly owing to the rebound in travel payments. The

⁶ For more detailed information, see Chapter 2 of the Banco de España *Annual Report 2015*, "Competitive adjustment and recovery in the Spanish economy".

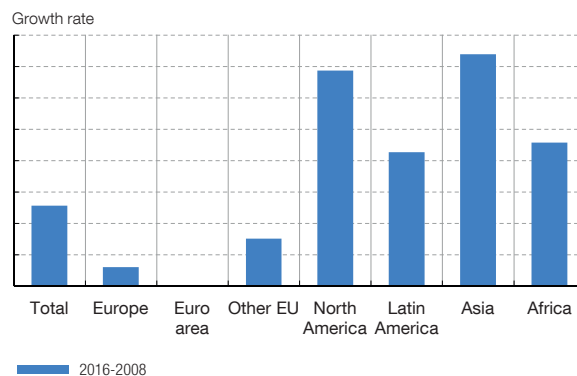
FOREIGN TRADE IN GOODS

CHART 3

1 CONTRIBUTION TO GROWTH OF REAL EXPORTS
By geographical area and by product. 2016



2 REGULAR EXPORTERS (a)
By geographical area



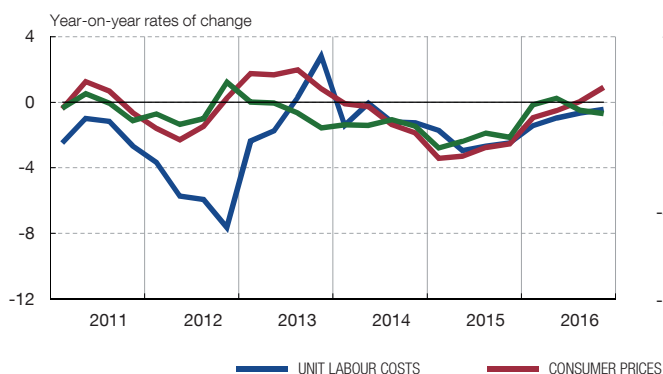
SOURCES: ICEX and Ministerio de Economía, Industria y Competitividad

a A firm is deemed to be a regular exporter if it exported consecutively in the previous four years.

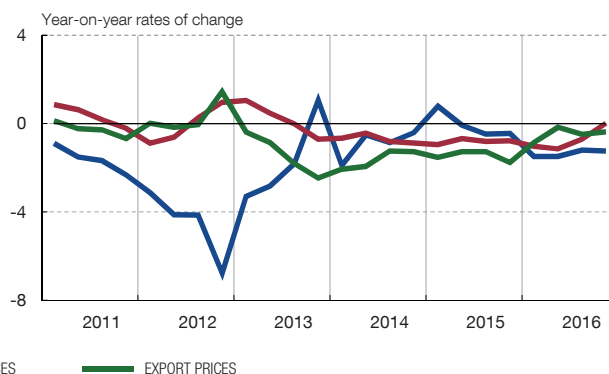
COMPETITIVENESS (a)

CHART 4

1 VIS-À-VIS DEVELOPED COUNTRIES



2 VIS-À-VIS THE EURO AREA 19



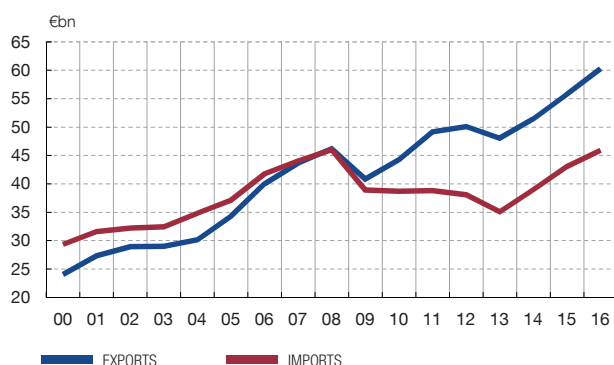
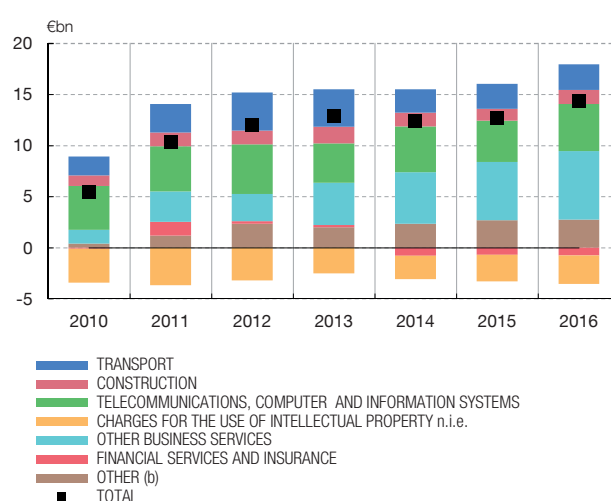
SOURCE: Banco de España.

a Quarterly data. Positive rates of change denote loss of competitiveness and viceversa.

positive travel balance remained stable at 3.3% of GDP, while net exports of non-travel services increased their weight in GDP very slightly, to 1.3%. The acceleration in travel payments is associated with the strength of private consumption. Travel receipts remained buoyant, driven by new historical highs in foreign tourist inflows, clearly outpacing global growth, and spending. Tourist expenditure was boosted by its greater relative weight in hotel accommodation. The positive performance of non-resident tourism in 2016 reflected the contribution of diverse factors, especially perceived insecurity in certain competitor regions, improvements in the Spanish economy's competitiveness in recent years and in the adaptation of the tourism sector to new digital consumption habits.⁷

⁷ For a more detailed analysis, see the box "Dynamism of non-resident tourism in 2016 and its determinants", of the "Quarterly report on the Spanish economy", *Economic Bulletin*, 1/2017, Banco de España.

1 TRADING VOLUME (a)

2 BALANCES (a)
By type of service

SOURCE: Banco de España.

a A change in the overall structure of other services gave rise to a certain statistical break in 2013 as a result of changes in the Encuesta de Comercio Internacional de Servicios (Survey on International Trade in Services).

b Processing, repair, government, cultural and leisure services.

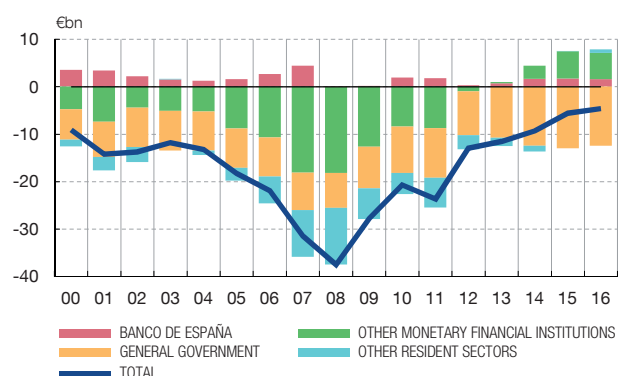
Non-travel services receipts rose practically across all types of services, mainly driven by business, telecommunications, IT and information, and transport services, in this order, in an environment of growth in goods and travel exports. By geographical area, this rise was mainly due to the increase in sales to the EU and the Asian markets. On preliminary information from the World Trade Organisation (WTO), Spain's share of non-travel services improved in nominal terms in 2016. As with exports, non-travel services imports rose in most types of services, except financial services. The items which most contributed to the increase were business services, followed by charges for the use of intellectual property and transport services (see Chart 5).

Meanwhile, the balance on primary income⁸ improved slightly in 2016, from a deficit of approximately 0.1% of GDP to a surplus of around 0.1% (see Chart 6), as a result of the slight correction of the investment income deficit (of 0.1 pp of GDP, to 0.4%). This can basically be explained by the decrease in interest payments in an environment of very low interest rates and a shift of foreign investors' holdings towards government debt, the yield of which is, on average, below that on corporate bonds. In line with these developments, the correction of the investment income deficit was concentrated in portfolio investment, specifically debt securities, while the balances of other instruments as a percentage of GDP remained mainly stable.

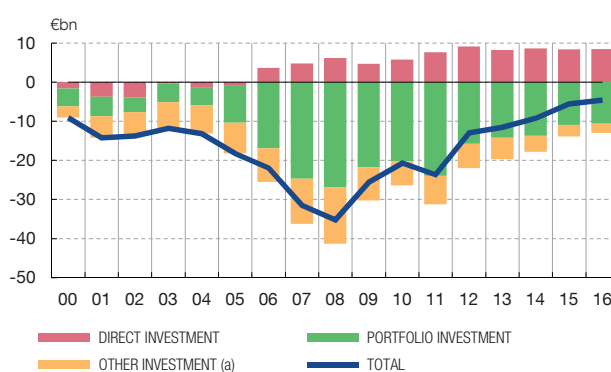
The deficit on the secondary income account, which includes the bulk of current transfers, widened slightly in 2016 (by 0.1 pp), to 1.1% of the GDP, because payments increased more than receipts. The worsening of the balance on secondary income was due to the performance of the balance of EU current transfers (see Table 1) and, above all, the widening of the deficit on the other items of this current account component.

⁸ Primary income includes compensation of employees, investment income, taxes on production and imports, and subsidies. Secondary income includes personal transfers, current taxes, social contributions and benefits, transfers relating to insurance transactions, current international cooperation and other miscellaneous items.

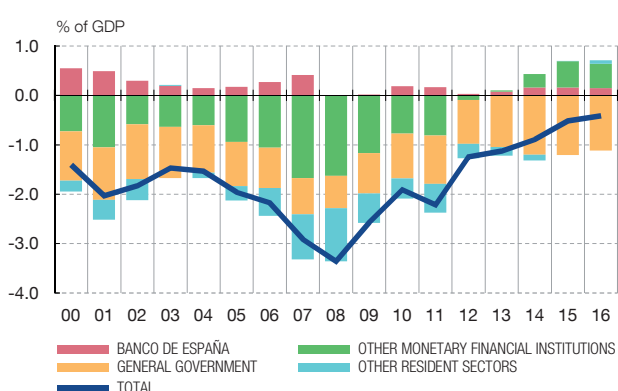
1 BALANCE BY SECTOR



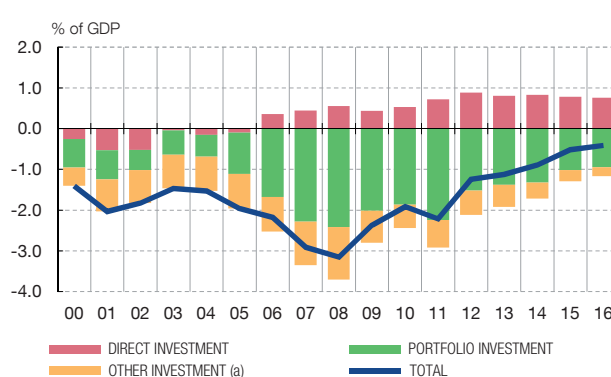
2 BALANCE BY FUNCTIONAL CATEGORY



3 BALANCE BY SECTOR



4 BALANCE BY FUNCTIONAL CATEGORY



SOURCE: Banco de España.

a. Includes income arising from reserves.

The capital account surplus, which is determined basically by EU capital transfers, declined by 0.5 pp to 0.2%, since receipts from EU funds fell (see Chart 1).

Financial transactions with the rest of the world

In 2016 the Spanish economy's financial transactions with the rest of the world, excluding the Banco de España⁹, posted a net positive balance of €83.1 billion (equivalent to 7.5% of GDP, see Chart 7.1), owing to the net investment abroad by residents (7.5% of GDP) and, to a lesser extent, the decline in liabilities issued by residents held by foreign agents (0.2% of GDP), which offset the slightly negative balance posted by transactions with financial derivatives (-0.2% of GDP).¹⁰ The information relating to the different institutional sectors shows that, in net terms, it was once again the private sector which made

⁹ Since inception of the Monetary Union, along with reserves, the net position of the Banco de España vis-à-vis the Eurosystem must be considered as an accommodative item counterposing the others. Therefore, to facilitate economic analysis, the financial account is presented with an initial separation between that of the Banco de España and that of the other sectors. For a detailed explanation of the reasons for this presentation and how to interpret it, see the statistical note entitled "Banco de España claims on the Eurosystem and the treatment of euro banknotes in the Balance of Payments and the International Investment Position" on the external sector statistics page of the Banco de España website. See also on this topic Martínez Pagés (2016).

¹⁰ The time series of most of the items discussed in this article can be found in Chapter 17 of the *Statistical Bulletin* of the Banco de España.

CURRENT AND CAPITAL TRANSFERS VIS-À-VIS THE EUROPEAN UNION (a)
€m

TABLE 1

	2009	2010	2011	2012	2013	2014	2015	2016
Receipts	11,645	12,308	12,754	13,542	12,518	11,638	12,097	9,486
Primary income	6,596	6,231	5,990	6,049	5,553	5,480	4,597	5,955
EAGF and other	6,596	6,231	5,990	6,049	5,553	5,480	4,597	5,955
Secondary income. Transfers (b)	1,125	676	1,747	1,623	1,251	1,193	527	1,207
Capital transfers (c)	3,924	5,401	5,017	5,869	5,713	4,965	6,973	2,324
Paiments	11,430	10,390	11,768	11,331	12,089	11,415	11,287	13,128
Primary income	1,336	1,544	1,560	1,447	1,324	1,514	1,769	2,611
Traditional own resources (d)	1,336	1,544	1,560	1,447	1,324	1,514	1,769	2,611
Secondary income. Transfers	10,095	8,846	10,208	9,884	10,765	9,901	9,518	10,518
EDF	203	218	242	222	246	253	267	311
EU own funds derived from VAT and GNI	9,892	8,628	9,966	9,663	10,376	9,541	9,209	10,008
Balance	214	1,918	986	2,210	429	223	810	-3,643

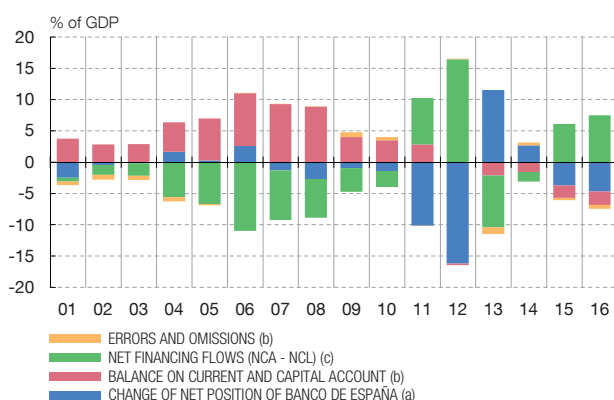
SOURCES: Ministerio de Economía, Industria y Competitividad, Ministerio de Hacienda y Función Pública, Ministerio de Agricultura y Pesca, Alimentación y Medio Ambiente, Ministerio de Asuntos Exteriores y de Cooperación and Banco de España.

- a As a result of the reform of the Common Agricultural Policy (ACP) in 2004 [Regulation (EC) 1782/2003 and subsequent implementing legislation, and pursuant to Regulation (EC) 1290/2005, two new European agricultural funds were created, namely the European Agricultural Guarantee Fund (EAGF) and the European Agricultural Fund for Rural Development (EAFRD), replacing to all effects and purposes, as from 16 October 2006, the two sections (Guarantee and Guidance) of the former European Agricultural Guidance and Guarantee Fund (EAGGF).
- b Includes the European Social Fund (FSE).
- c Comprises the European Regional Development Fund (ERDF), the European Agricultural Fund for Regional Development (FEADER) and the Cohesion Funds.
- d 20% (10% until 2002, 25% until 2013) of the amount of this item is not actually paid, since this is the amount that the Spanish State receives for administering the collection of these funds. In the balance of payments, the gross payment is included in current transfers and the aforementioned 20% in government services receipts.

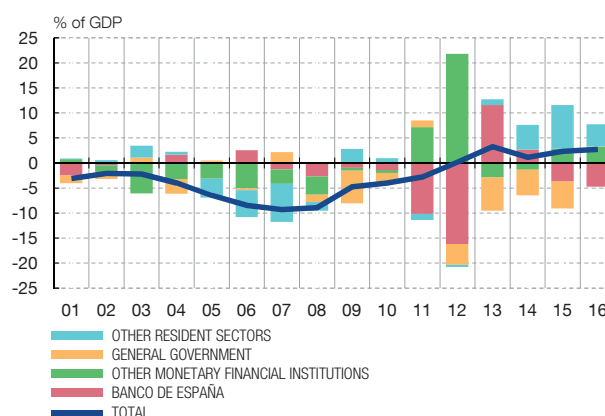
investments abroad -specifically, other resident sectors (ORSs), for 4.4% of GDP, and monetary financial institutions other than the Banco de España (OMFI), for 3.2% of GDP-, while net financial transactions by the general government were practically non-existent (0.1% of GDP - see Chart 7.2).

A somewhat more detailed analysis of the financial account of the balance of payments shows that, on the liabilities side, investments by non-residents in the Spanish economy, excluding the Banco de España, were slightly negative in 2016 (-2 billion, -0.2% of GDP, after having posted positive figures in the three preceding years. See Chart 7.3 and Table 2). This decrease was highly influenced by the decline in liabilities vis-à-vis the rest of the world in the form of portfolio investment, which was the main source of funds from abroad between 2013 and 2015 (amounting to 7.1% of GDP in 2015) and which recorded negative net transactions of -0.9% of GDP in 2016. The greatest fall in this item was seen in the volume of purchases by the rest of the world of long-term debt securities issued by general government which, although still positive, decreased by 5.3 pp to 0.1% of GDP, against a backdrop where net issuance of these assets declined and the amount acquired by the Eurosystem rose. This volume of transactions was insufficient to offset divestments by the rest of the world of securities issued by Spanish financial institutions, which accounted for 2.7% of GDP (a figure similar to that recorded in 2015), in line with their negative net issuance. Additionally, the amount channelled through equity holdings and investment funds was again positive (1.5% of GDP), albeit lower than in 2015 (3.4% of GDP). Divestments were recorded once again in other investment (for an amount equal to 1.8% of GDP, following the negative volume of transactions equal to 3.3% of GDP posted in 2015) and, particularly, in relation to the funds raised by OMFI through short-term instruments (-1.5% of GDP, compared with -2.1% of GDP in 2015). By contrast, the net volume channelled from abroad in the form of direct

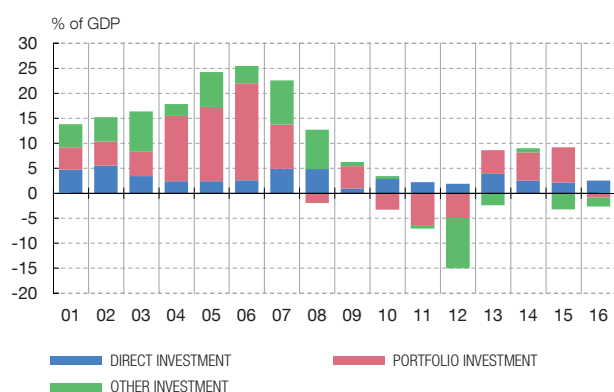
1 BALANCE ON CURRENT AND CAPITAL ACCOUNT AND CROSS-BORDER FINANCIAL TRANSACTIONS



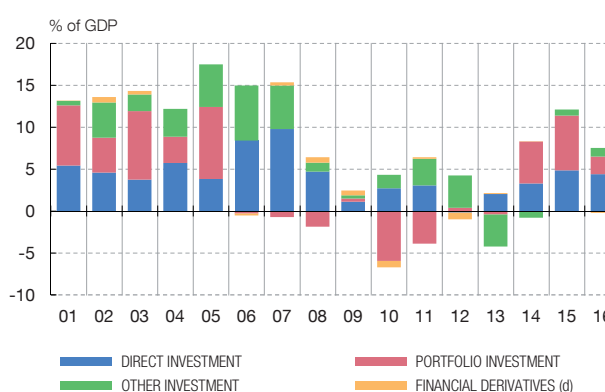
2 NET FINANCIAL TRANSACTIONS (NCA-NCL) SECTORAL BREAKDOWN



3 NET CHANGE IN LIABILITIES (NCL) (c)



4 NET CHANGE IN ASSETS (NCA) (c)



SOURCE: Banco de España.

- a Change in assets less change in liabilities. A positive (negative) sign denotes a decrease (increase in net external liabilities of the Banco de España).
b Sign changed.
c Excluding the Banco de España.
d Financial derivatives are recorded in net terms (NCA - NCL) and by convention are assigned to net change in assets.

investment was again positive and higher than in the previous year (reaching 2.5% of GDP, 0.4 pp more than in 2015), concentrating in equity holdings and investment funds (as in 2015, practically none materialised in the form of debt instruments).

On the assets side, net investment by residents (excluding the Banco de España) was again positive in 2016 although lower than in 2015 (reaching a volume equal to 7.5% of GDP, as compared with 12% in 2015; see Chart 7.4 and Table 2). Net positive transactions were recorded in all the functional categories, the higher amounts being associated with direct investment (funds channelled through this route amounted to 4.4% of GDP, 0.5 pp less than in 2015), including most notably that in equity holdings and investment funds (3.5% of GDP, 0.3 pp lower than in 2015). Portfolio investment, the item posting higher amounts in 2015, decreased substantially, but remained positive (2.1% of GDP, 4.4 pp less than in 2015). Investment in the form of equity holdings and investment funds and, specifically, that by non-monetary financial institutions, declined substantially (by 2.6 pp, to 0.7% of GDP), after having practically doubled in 2015, when its growth was boosted by, among other factors, the greater dynamism of equity held by institutional investors and, in particular, by investment funds. Residents also reduced the amount of their

BREAKDOWN OF THE FINANCIAL ACCOUNT OF THE BALANCE OF PAYMENTS

TABLE 2

% of GDP

	2010	2011	2012	2013	2014	2015	2016
Financial account balance (NCA - NCL) (a)	-2.5	7.4	16.4	-8.3	-1.5	6.1	7.5
Net change in external assets (NCA) (a)	-2.4	2.5	3.2	-2.1	7.5	12.0	7.3
Direct investment	2.7	3.0	-0.2	2.0	3.3	4.9	4.4
Monetary financial institutions	-0.6	1.6	0.0	0.0	0.8	1.1	0.6
Other resident sectors	3.3	1.4	-0.2	2.0	2.5	3.8	3.8
Portfolio investment	-6.0	-3.9	0.4	-0.4	5.0	6.5	2.1
General government	-0.6	-0.1	-0.5	-0.3	-0.4	-0.3	0.0
Monetary financial institutions	-3.2	-0.7	2.1	-0.7	0.6	-0.1	-0.3
Other resident sectors	-2.2	-3.1	-1.3	0.5	4.8	6.9	2.3
Other investment (b)	1.6	3.2	3.8	-3.8	-0.8	0.7	1.0
General government	0.3	0.6	1.9	0.9	0.5	-0.1	-0.2
Monetary financial institutions	0.8	1.6	1.5	-5.1	-0.8	0.9	0.5
Other resident sectors	0.6	0.9	0.5	0.4	-0.5	-0.1	0.7
Financial derivatives (c)	-0.8	0.2	-0.8	0.1	0.0	-0.1	-0.2
Net change in external liabilities (NCL) (a)	0.1	-4.9	-13.2	6.2	9.0	5.9	-0.2
Direct investment	2.8	2.2	1.8	3.8	2.5	2.1	2.5
Monetary financial institutions	0.2	0.2	0.3	0.1	0.1	0.0	0.2
Other resident sectors	2.6	2.0	1.6	3.7	2.4	2.2	2.3
Portfolio investment	-3.3	-6.4	-5.0	4.7	5.6	7.1	-0.9
General government	1.3	-1.0	0.3	6.6	4.7	5.8	0.0
Monetary financial institutions	-2.0	-3.1	-3.9	0.0	1.2	1.4	-0.8
Other resident sectors	-2.7	-2.3	-1.3	-1.8	-0.3	-0.2	0.0
Other investment (b)	0.6	-0.8	-10.1	-2.4	0.9	-3.3	-1.8
General government	0.5	0.2	5.3	0.7	0.5	-0.8	-0.2
Monetary financial institutions	-0.7	-1.8	-14.5	-3.0	0.6	-2.4	-1.7
Other resident sectors	0.8	0.8	-0.9	-0.1	-0.2	0.0	0.1
Change in net external position of the Banco de España (d)	-1.5	-10.2	-16.2	11.5	2.7	-3.7	-4.7
Reserve assets	0.1	0.9	0.2	0.1	0.4	0.5	0.7
Position vis-à-vis the Eurosystem	-0.9	-11.6	-14.9	13.3	4.5	-4.7	-5.4
Other net assets	-0.6	0.4	-1.6	-1.9	-2.3	0.5	-0.1
Errors and omissions (e)	-0.5	0.0	-0.1	1.1	-0.5	0.3	0.6
Memorandum item							
Balance of the financial account, including the Banco de España	-4.0	-2.8	0.2	3.2	1.1	2.3	2.7

SOURCE: Banco de España.

a Excluding the Banco de España.

b Mainly includes loans, deposits and repos.

c Recorded as net amount of assets and liabilities.

d Change in assets less change in liabilities. A positive (negative) sign denotes a decrease (increase) in the net foreign liabilities of the Banco de España.

e A positive sign indicates that receipts are being understated and/or payments overstated, which in the financial account is the same as understating liabilities and/or overstating assets. A negative sign denotes the opposite.

acquisitions of debt securities issued by foreign agents (1.1% of GDP, as compared with 1.6% in 2015). Finally, the net volume of other investment abroad was again positive in 2016, amounting to 1% of GDP (slightly higher than the 0.7% of GDP recorded in 2015) and was concentrated in OMFI loans and trade credits.

The positive sign of the Spanish economy's net financial transactions with the rest of the world, excluding the Banco de España, continued to be influenced by the

The international investment position and gross external debt

Eurosystem's non-standard monetary policies, as well as by the Spanish economy's net lending capacity (specifically, by the private sector). In particular, the liquidity generated in Spain by the ECB's quantitative easing measures continued to be channelled in good measure towards the rest of the world, either in the form of the net acquisition of foreign assets by domestic agents or of the decline in net liabilities vis-à-vis the rest of the world. Additionally, government debt portfolio sales by foreign investors to the Banco de España are also included in the financial account as a decrease in liabilities held by non-residents.¹¹

The amount of the Spanish economy's net financial transactions with the rest of the world, excluding the Banco de España, exceeded the surplus on the current and capital accounts, resulting in another increase in the Banco de España's debtor position vis-à-vis non-residents (see Chart 7.1).

In line with the economy's net lending capacity, the net financial transactions of Spain as a whole were also positive, amounting to 2.7% of GDP.¹²

In 2016 the Spanish economy's IIP net debit balance decreased again (by 5.6 pp, to 85.7% of GDP), as a result of both the decline in liabilities relative to GDP (of 0.7 pp, to 244.8%) and, above all, the increase in assets (5 pp of GDP, to 159.2 %). The fall in the IIP's debit balance was due to both the positive sign of Spain's net financial transactions (2.7 pp) and product expansion (3.1 pp), amply offsetting the slightly negative impact (0.2 pp) of valuation effects and other adjustments on this indicator (see Chart 8.1).

Specifically, the valuation effects had a slightly negative impact on the IIP, since the positive revaluations of liabilities exceeded those of assets. The value of liabilities increased as a result of both changes in the prices of financial instruments and, in particular, of debt securities (equity securities' prices decreased on average) and, to a lesser extent, changes in exchange rates. Conversely, the increase in the value of assets was basically due to the appreciation of the foreign currencies in which the portfolio was denominated and, to a lesser degree, the increase in the prices of equity instruments (debt instruments, by contrast, depreciated).

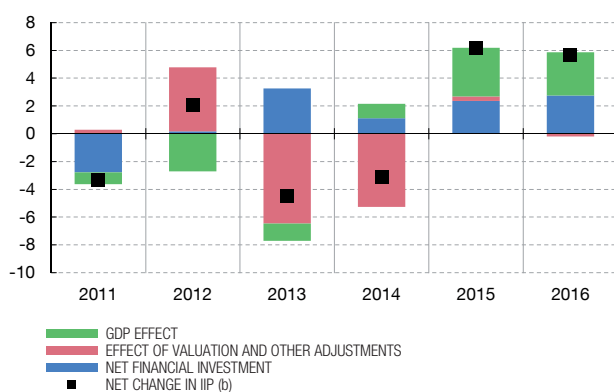
The breakdown by sector reveals that the net debtor position vis-à-vis the rest of the world of all the sectors except the Banco de España decreased in 2016. In particular, that of the public sector fell 1.1 pp to 44.6% of GDP and, in the case of the private sector, in line with its finance capacity, the net liabilities of OMFls and ORSs declined by 3.5 pp and 5.2 pp, respectively, to 10.9 % and 15.3 % of GDP (see Chart 8.2). The Banco de España's net debtor position rose by 4.2 pp to 14.8% of GDP, basically as a result of the increase in net liabilities vis-à-vis the Eurosystem, which more than offset the increase in reserves.

The breakdown by functional category excluding the Banco de España disclosed a decrease as compared with 2015 in the net debit balances of all items, except financial derivatives, of around 2 pp or 3 pp of GDP, depending on each case, with portfolio investment remaining the item with the highest debt balance (51.8 % of GDP. See Chart 8.3) and direct investment that with the lowest (3.5 % of GDP).

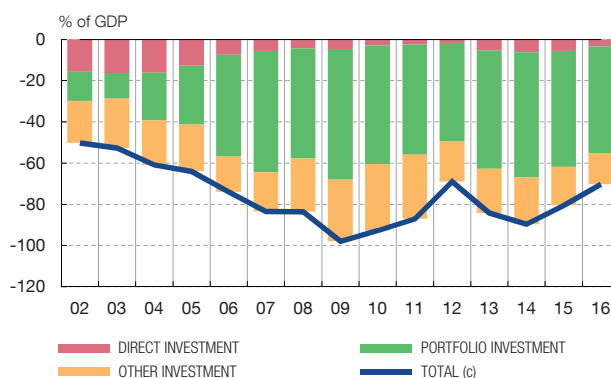
Despite the decline in the Spanish economy's net debtor position vis-à-vis the rest of the world, it remains high, both in historical terms and in comparison with other countries

¹¹ See Martínez Pagés (2016).

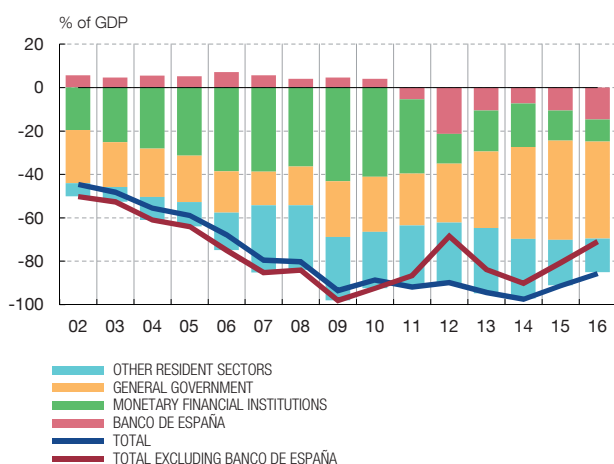
1 DETERMINANTS OF NET CHANGE IN THE IIP (a)



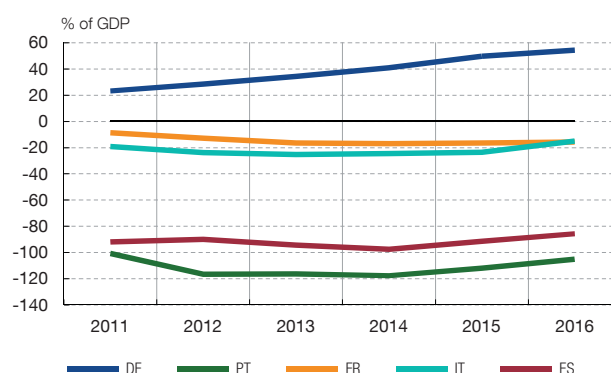
2 NET IIP (a). BREAKDOWN BY FUNCTIONAL CATEGORY



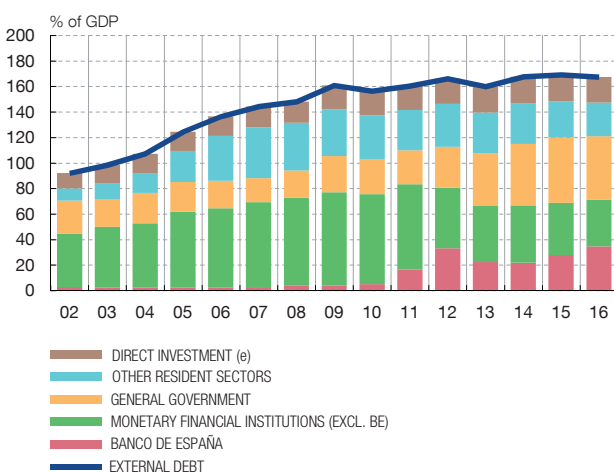
3 NET IIP (a). SECTORAL BREAKDOWN



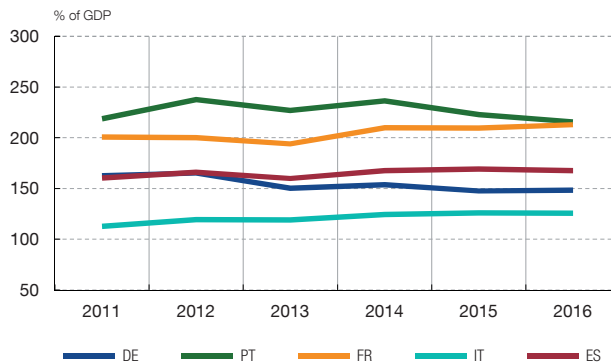
4 NET IIP (a). INTERNATIONAL COMPARISON



5 GROSS EXTERNAL DEBT (d). SECTORAL BREAKDOWN



6 GROSS EXTERNAL DEBT (d). INTERNATIONAL COMPARISON



SOURCE: Banco de España.

- a The net IIP is the difference between the value of the external assets of the resident sectors and that of their liabilities to the rest of the world.
 b A positive (negative) sign denotes a decrease (increase) in net liabilities to the rest of the world.
 c Excluding the Banco de España.
 d Gross external debt comprises the balances of all liabilities entailing future repayment of principal, interest or both (i.e. all financial instruments, except equity and financial derivatives).
 e Including only direct investment in the form of debt.

(see Chart 8.4), which makes it more vulnerable to adverse shocks. Correcting this position will require maintaining current account surpluses over an extended period of time.

Another useful indicator to analyse the degree of vulnerability of the Spanish economy is the volume of gross external debt, which comprises the liabilities entailing payment obligations, which account for somewhat less than 70% of the total.¹³ In 2016 the gross external debt decreased by 1.7 pp, to 167.5% of GDP, as a result of the decline in external liabilities across all sectors,¹⁴ with the exception of those of Banco de España, which increased by 6.8 pp of GDP, to 34.8% (see Chart 8.5). Notably, the liabilities of OMFIs fell for an amount equal to 4.3 pp, to 36.5% of GDP, while the liabilities of general government and ORSs decreased by 1.5 pp and 1.9 pp, respectively (49.6% and 26.4%, respectively). Thus, excluding the liabilities of the Banco de España, the Spanish economy's gross external debt declined substantially, from 141.2% of the GDP posted in 2015 to 132.7% in 2016. International comparison of external debt as a proportion of GDP shows that Spain remained at an intermediate level, higher than those of Germany and Italy and lower than those of France or Portugal (see Chart 8.6).

Finally, the data relating to the composition of external debt evidence the predominance of instruments maturing at long term and denominated in euro, which reduces the incidence of risks associated with exchange rate fluctuations. Specifically, excluding the liabilities of the Banco de España and direct investment, for which there is no information on term, the weight of long-term issuances at end-2016 was 73.4%, slightly higher (0.1 pp) than a year earlier), of which somewhat more than 40% relate to debt securities issued by the general government. Lastly, liabilities denominated in euro accounted for the bulk of the total and, accordingly, their value is little sensitive to exchange rate fluctuations.

27.04.2017.

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12 Errors and omissions, which measure the discrepancy between the amount of net financial transactions and the nation's net lending, reached an amount equal to 0.6% of GDP in 2016.

13 The external debt of a country comprises the balances of liabilities to non-residents entailing future repayment of principal, payment of interest or both (all financial instruments, except equity and financial derivatives).

14 There is no breakdown by sector for direct investment liabilities, which are also included in the calculation of gross external debt, despite the fact that this type of investment is concentrated in the private sector (ORSs and OMFIs).